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SUBJECT: EAP A/S HILL'S MEETING WITH ASIAN DG SASAE ON
ASIAN ISSUES

Classified By: Deputy Chief of Mission Joe Donovan. Reasons. 1.4 (b)(d)
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11. (C) Summary. In an April 11 tour d'horizon of issues affecting the Asian region, MOFA Asian Affairs DG Sasae told A/S Hill:

- Japan is emphasizing relations with Indonesia, Singapore and Vietnam in its strategic thinking with ASEAN;
- Japan will not stand in the way of Russia becoming a member of the EAS, and hopes the U.S. will consider some sort of participation with the EAS;
- Japan sees Indonesia as on the right path toward economic reform and to becoming a leader within ASEAN;
- With growing Chinese influence, Japan is placing strategic importance on Burma, Laos and Cambodia, and he urged the U.S. to consider these countries' strategic regional importance;
- China needs to be told that its current "undisciplined" development assistance practices are unhelpful and need more transparency;
- MOFA is now reviewing ways to become less restrictive on trade and economic relations with Taiwan;
- He sees no fundamental change in relations with China in the near future, and sees China's development of East China Sea gas reserves as a potentially volatile issue;
- Japan's relations with Mongolia are improving;
- Japan's priority with India now is to develop trade and investment, while also exploring deeper defense ties; and
- Japan could eventually support the U.S.-India Civil Nuclear Cooperation Initiative. End summary.

ASEAN/East Asia Summit

12. (C) With China in the background, Japan is emphasizing relations with Indonesia, Singapore and Vietnam in its strategic thinking with ASEAN neighbors, MOFA Director General for Asian and Oceanic Affairs Kenichiro Sasae told

A/S Christopher Hill at a April 11 lunch meeting. He agreed with A/S Hill that all three countries, more than others in ASEAN, are cautious about China's increasing influence with ASEAN members. Indonesia and Singapore were also cautious about Russia's role in the region. While they may oppose Russian membership in the East Asia Summit, they are likely a minority, and Russia may become a member of the EAS. If that were to occur, Japan would not move to oppose it, Sasae said, though he questioned whether an EAS with India, Russia and China -- and without the USA -- would be good for Japan's interests. While he understood the priority the U.S. places on APEC, Sasae suggested the U.S. keep an eye on the EAS as it develops. The U.S. would not necessarily have to send the President or Secretary of State to EAS meetings in order to take advantage of the gathering to further bilateral interests. Japan's preference would be for Russia to obtain observer status in the EAS (vice full-member status), Sasae stated, and asked whether the United States would want observer status if Russia were to obtain it. A/S Hill replied such a decision would have to be made after reviewing developments and through an inter-agency process.

Indonesia

13. (C) Indonesia is trying hard to bring about economic reform Sasae observed. Proud of its democratic government, Jakarta is also trying to recover its position as a strong leader among ASEAN members, he said, perhaps supplanting Thailand. Japan is working toward a Free Trade Agreement with Indonesia, and is hoping an FTA will allow Japan to increase its influence in Indonesia at a time when China is also trying to build relations with Jakarta.

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Southeast Asia

14. (C) China is increasing its presence in Cambodia, Laos and Burma, Sasae remarked, adding that Japanese embassies in those countries are reporting that Japan needs to increase its activities or risk losing influence to China. Japanese ambassadors in the three countries were suggesting that Japan redirect official development assistance from China to the region in order to combat the effect of China's economic and military assistance, as well as increased business activity. While acknowledging that the area may not be of strategic importance to the U.S., it is for Japan, Sasae stated, as China seeks a route to the south. He urged the U.S. to consider the strategic implications of Chinese influence in the area, noting that North Korea also has some influence on Burma.

ODA

15. (C) China's neglect for transparency and accountability in distributing development assistance is sending the wrong message to developing countries, Sasae asserted. When China extends aid for flashy, superficial projects such as presidential palaces, combined with military aid that Japan cannot offer, and then requires no transparency or benchmarks for democratic progress, recipient countries have no incentive to change and Japan cannot compete for influence. China should be told, he said, that its "undisciplined" method of giving assistance, which does not hold countries to any measure of accountability for progress on democracy or human rights, is negligent.

Taiwan

16. (C) Japan does not intend to change its basic "One China" policy, no matter how much some Japanese officials may regret that Japan has missed opportunities to develop regular trade

and economic relations with Taiwan, Sasae said. Japan has to be sensitive about giving Beijing the impression that it "is playing the Taiwan card," and will seek to avoid initiatives with political overtones. MOFA is nonetheless reviewing ways to become less restrictive in trade and economic relations with Taiwan. Sasae separately remarked that Taiwan opposition leader Ma Ying-jeou appears to be gaining in popularity.

China

17. (C) Sasae predicted that Japan-China relations will not fundamentally change in the new future, though he acknowledged that past problems, such as the Prime Minister's visits to Yasukuni Shrine, remain as irritants. None of the most likely successors to PM Koizumi have indicated clearly whether they would continue to visit Yasukuni. While China pushes the history issue as the main obstacle to better relations, Japan believes there are other areas that need to be addressed, Sasae noted, pointing particularly to China's development of gas reserves in the East China Sea. Japan is trying to reach a negotiated settlement with China on East China Sea gas and hopes to come to an agreement before China begins production, which could start soon. Should China start production, it would cause an uproar among those Japanese who believe that Japan has equal rights to reserves there, and Japanese companies would no longer feel constrained about development, which could lead to severe tensions. He believed Beijing was also hoping for a settlement in the ongoing negotiations, but noted that no proposals have come close to an agreement thus far.

18. (C) In response to "terrible" remarks by PRC FM Li Zhaoxing comparing Japan's handling of WWII to that of Germany's, and thus insinuating that Japan's army was comparable to Hitler's Nazis, Japan decided to postpone a decision on yen loans to China this year, Sasae stated. Japan hopes to restart yen loans next year, but ultimately

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Japan will end such loans by 2008, while at the same time drawing down ODA. Japan would retain some forms of assistance, such as Japan International Cooperation Agency (JICA) volunteers/projects and environmental assistance because China's pollution directly affects Japan, Sasae observed.

Mongolia

19. (C) Sasae gave Mongolia high marks for its efforts to become a democratic country and said that Mongolia has been helpful in dealing with North Korea. Japan's relations have improved with Mongolia, he noted, adding that PM Enkhbold had just visited Tokyo in March, the first overseas trip by him as prime minister. During the visit Japan agreed to increase aid to Mongolia, and the two countries agreed that 2006 would be the Year of Mongolia in Japan and 2007 would be the Year of Japan in Mongolia.

India

110. (C) India is receiving more attention as a strategic priority in Japan, Sasae explained. India is now the largest recipient of yen loans, having surpassed Indonesia. Japan's priority is to develop trade and investment with India, and Japan has asked business associations such as Keidanren to invest more there. Japan has invited PM Singh to visit Tokyo and hopes the visit will occur before the summer. Japan is also exploring deeper defense ties with India, such as joint exercises in disaster relief, patrolling the seas, and coast guard-to-coast guard cooperation. "We would like a true strategic partnership," he said, "not simply a counterbalance to China." Such a partnership could be helpful in advancing

many of Japan's interests in the region, he suggested.

¶11. (C) Regarding the U.S.-India Civilian Nuclear Cooperation Initiative, Sasae said the U.S. and Japan differ in how they view the issue at this time. In the end, Japan could come around to supporting it, Sasae opined. Even though MOFA's Asia Bureau recognizes that India is a de facto nuclear power, for Japan as a whole to support the initiative, Japanese political leaders will have to overcome resistance from various groups within Japan. Japan will closely watch how the initiative is handled by the U.S. Congress, the Indian parliament and Indian nuclear safety regulators before deciding whether to relax export controls. Sasae reiterated the need for Japan to take domestic opinion into account as it deals with this issue, and stated that a neutral stance by Japan should not be interpreted as meaning Japan is not supportive.

¶12. (U) Assistant Secretary Hill cleared this message.
SCHIEFFER